EKURHULENI METROPOLITAN MUNICIPALITY
SPECIAL COUNCIL MEETING

2016.04.28

ITEM A-F (32b-2016)

EKURHULENI DEVELOPMENT COMPANY (EDC): 2016/17 - 2018/19 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)

PURPOSE

To submit the Ekurhuleni Development Company's Integrated Development Plan and Medium-term Revenue and Expenditure Framework for the 2016/2017 to 2018/2019 financial period.

STRATEGIC OBJECTIVE

Promoting good governance

WARDS AFFECTED

All wards

IDP LINKAGE

Budget Monitoring

EXECUTIVE SUMMARY

The key deadlines for the compilation of the IDP and Medium Term Revenue and Expenditure Framework (MTREF, or Budget) was submitted to Council for approval during August 2015 as required by section 21(b) of the MFMA. In terms of the approved key deadlines, the Skeleton IDP and Budget must be submitted to Council at the end of January 2016 and tabled to Council at the end of March 2016.

In December 2015 National Treasury issued MFMA Budget Circular No 78 dated 8 December 2015. It should be noted that the date of the municipal elections were not announced at the time when the circular was issued. In fact, there was still a debate that elections could take place in May 2016. Based on the uncertainty municipalities were advised by National Treasury to approve the final budgets in April 2016 and not May 2016.

Based on the guidance of the circular, Council approved a revised schedule of key deadlines on 28 January 2016 for the tabling of the budget in February 2016 and approval of the budget to be in April 2016.

This resulted therein that the public participation process as well as the oversight committee meetings had to take place during March 2016.

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The following tables are provided in the report:

Table 1	Ekurhuleni Development Company's Medium Term Revenue and Expenditure Framework – Departmental **Operating Budgets** per Category
Table 2	Ekurhuleni Development Company's Detailed Departmental **Capital Budgets**
Table 3	Ekurhuleni Development Company's **SDBIP** for the 2016/17 financial Year
Table 4	Revenue and Tariff Policy (or any other budget related policy of the department)

DISCUSSION

Section 16 of the MFMA dealing with the tabling of annual budgets, inter alia, reads as follows:

1) *The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.*

2) *In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.*

3) *Subsection (1) does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.*

Section 24 of the MFMA dealing with the approval of annual budgets and, inter alia, reads as follows:

1) *The municipal council must at least 30 days before the start of the budget year consider approval of the annual budget.*

2) *An annual budget-*

   a) *must be approved before the start of the budget year;*
   b) *is approved by the adoption by the council of a resolution referred to in section 17(3)(a)(i); and*
   c) *must be approved together with the adoption of resolutions as may be necessary-*

      i. *imposing any municipal tax for the budget year;*
      ii. *setting any municipal tariffs for the budget year;*

iii. approving measurable performance objectives for revenue from each source and for each vote in the budget;
iv. approving any changes to the municipality's integrated development plan; and
v. approving any changes to the municipality's budget related policies.

3) The accounting officer of a municipality must submit the approved annual budget to the National Treasury and the relevant provincial treasury.

The draft IDP and Budget was tabled to Council on the 25th February 2016 as required by section 16 of the Municipal Finance Management Act. The intention of the tabled budget was for Council to note the draft budget for the public consultation process to be embarked upon.

The budget attached to this report was reviewed by the Budget Steering Committee.

PROCESS FOLLOWED

Background

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IBALCO Meetings

The IDP, Budget, Assets and Liabilities Committee (IBALCO) has been set up as a subcommittee of the City Manager's Strategic Management Team (SMT) process. This committee is tasked with the technical evaluation of departmental budget requests. Meetings took place on a regular basis since the initial budget process started to consider all the matters affecting the compilation of the new budget.

IBALCO meetings took place prior to all the Budget Steering Committee meetings in order to review documentation before submission to the Budget Steering Committee.

Budget Steering Committee

The Budget Steering Committee has been set up by the Executive Mayor in terms of section 4 of the Municipal Budget and Reporting Regulations.

The Budget Steering Committee is chaired by the MMC Finance, and all the members of Mayoral Committee are invited to the meetings. The Executive Mayor is an ex officio member of the Budget Steering Committee and attended several of these meetings.

Operating Budget - Operating Income

The operating budget amounts to R46,3 million. The bulk of the income is derived from *Rental Income*. Internal charges consist of agency fees charges by EDC to entities within the EDC group and are excluded from the group's operating budget as they are intra-group transactions.

Table1: Income

OPERATING BUDGET

DESCRIPTION	F01 R'000 2016/17	F01 R'000 2017/18	F01 R'000 2018/19
	R	R	R
EDC et al			
INCOME			
NON - EXCHANGE REVENUE			
Transfers and Subsidies	6,500	6,890	7,303
- Operational: Monetary	3,500	3,710	3,933
EXCHANGE REVENUE			
Interest, Dividends and Rent on Land	36,720	38,923	41,259
Operational Revenue	5,975	6,334	6,714
Sales of Goods and Rendering of Services	127	135	143
TOTAL INCOME	**46,322**	**49,102**	**52,049**
EXPENDITURE			
Employee Related Costs	**(15,159)**	**(16,069)**	**(17,033)**
Senior Management			
- SM - Salaries Allowances & Service Benefits	(8,262)	(8,758)	(9,283)

Municipal Staff			
- MS - Salaries Allowances & Service Benefits	(6,923)	(7,338)	(7,779)
Contracted Services	(26,904)	(28,518)	(30,229)
- Outsource Services	(22,188)	(23,519)	(24,930)
- Consultants and Professional Services	(4,252)	(4,507)	(4,778)
Contribution for Bad Debt	(3,322)	(3,521)	(3,733)
Depreciation and Amortisation	(1,253)	(1,328)	(1,408)
TOTAL EXPENDITURE	**(46,200)**	**(48,971)**	**(51,911)**
SURPLUS / (DEFICIT)	**122**	**131**	**138**

EDC is affected by the world-wide economic decline. Payment levels are affected by people losing their employment and strict credit control remains a focus area for the EDC.

The following categories of expenditure are affected:

Provision for Bad Debts

The economic decline also affected the payment levels of consumers and the board had to adjust the Provision for Bad Debt accordingly. A 10% provision for bad debt is raised to cover the non-payment of rentals.

The budgeted target of 93% payments levels was achieved in the current financial year. The target has been set at 93% for 2015/16.
The entity managed to recover 94 % on average for the 2015-2016 quarter 2.

Expenditure on ***Employee related costs*** was increased with the following:

- 6% salary increase as per SALGA multi year agreement.
- The salaries of newly appointed staff in line with the approved new organizational structure of EDC.

The rentals of council properties are also becoming part of the Entity's responsibilities. Urban renewal of the Central business districts is one of the key areas where the entity must play a vital role as part of the turnaround strategy.

- The ***Repairs and Maintenance*** budget of R3.5m for 2016-2017 is in line with the non-adjusted budget of 2015/16. Ekurhuleni Municipality committed to contribute R3.5 million for back log maintenance per year. Spending of these funds is reported on in the quarterly performance reporting of the entity and address the structural maintenance of the properties of the entity. The entity however requested at least R6 million to meet the current maintenance backlog and this has been communicated in the 2015/16 adjustment budget and 2016/17 budget,

however the increase in the grant was not approved, therefore only R3,5m is included in the final budget.

Capital Budget

The capital budget consists of the items in **Table 2** below of the movable assets that need to be replaced and replenished.

Table 2: Capital Budget

Department	Project Name	2015/16 Revised Budget as per CIF Recommendation	2016/17 Revised Budget as per CIF Recommendation	2017/18 Revised Budget as per CIF Recommendation
EDC	Computer Equipment	300 000	30 000	30 000
EDC	Furniture & Fittings	100 000	100 000	110 000
EDC Total	**R 400 000**		**R 130 000**	**R 140 000**

Investment property: Project planning and detail design for the Germiston Fire Station housing project and the Delville Ext 9 housing project.

IDP / SDBIP FOR THE 2016/2017 FINANCIAL YEAR

The entity has made amendments to its existing SDBIP in order to accelerate service delivery and to refine some of the targets to ensure that all the service delivery targets comply with the "SMART" principle. A detailed report and narrations to changes in the SDBIP is detailed in **Annexure A** of this report.

KEY PRIORITIES AND FLAGSHIP PROJECTS

Since the establishment of EMM, it implemented projects and programmes through its IDP and the achievement of, inter alia, *improve the way government provides housing to ensure better quality houses closer to economic opportunities and combat corruption in the administration of waiting lists.*

Management of Existing Portfolio

EDC currently owns and manages 988 rental units in the Germiston area with clear intentions to develop more rental stock to meet the growing demand in the City of Ekurhuleni. In doing so EDC provides services that include facilities management; rent collection, maintenance and security for its tenant community. It is EDC's strong vision to ensure that low and moderate income households can have access to housing opportunities in parts of the municipality where they were previously excluded.

To this end the EDC will ensure the following:

- Improve and maintain the rent collection rate at 93%
- Reduce vacancies and improve the occupation rate to 98%
- Strive for a 75% customer satisfaction rate in all EDC housing estates
- Improve maintenance of residential units by implementing at least 95% of planned maintenance programmes

Development of New Units

The EDC in collaboration with the Human Settlements Department (HSD) and the Gauteng Department of Local Government and Housing (GDLGH) is proceeding with project planning and detail design for the Germiston Fire Station housing project and the Delville Ext 9 housing project. The implementation protocol is in the process to be finalized amongst the three parties. The EDC, in years prior, received a conditional grant of R10m from the GDLGH to pursue social housing in the City of Ekurhuleni. The EDC has a target of 250 units to be developed in the 2016/17 financial year.

- Phase 1 of the Fire Station Housing Project will yield 150 social housing units; and Phase 2 will consist of 350 units to be delivered over 3 years.
- The Delville Project will yield 100 new units adjacent to the existing Delville housing estate.

Feasibility studies will continue on the two properties next to the N17 to assess viability for a Greenfields development.

Transfer of Public Stock from the EMM

The EDC targets to have approximately 500 rental units transferred from the EMM to the EDC as part of Phase 2 of the public stock transfer programme. It is assumed that 411 units would have been transferred during the 14/15 financial as part of Phase 1 of this project.

Table 3. SDBIP Performance Indicators

#	Planning Statement	Indicator	Overall Target
1.	Application of full corporate coherence procedures to all transactions	Level of Compliance with all relevant legislations and governance principles	Unqualified audit opinions for all entities
2.	Improved Financial Management	Level Compliance with TAX ACT	No material AG Finding
3.	Comply with SHRA Accreditation Requirement	Full Accreditation	Accreditation with SHRA
4.	Effective management of existing stock	% of vacancies maintained each financial year	95.00%
5.	Ensure Financial Sustainability	Revenue collected as a % of amount billed for the year including arrears	95.00%

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Table 4 - POLICIES AND TARIFF STRUCTURE

The tariffs for the EDC were reviewed and 6% increase on rentals was approved. The main aim is to keep the rentals affordable however to sufficiently recover all the expenditure related to the effective management of the entity. Tariffs are increased once a year (in July) and are communicated to the tenants three months prior to implementation.

	Tariff 2015/2016	Tariff 2016/2017	% Increase
Rent charges			
1 Bedroom Flat (23m-35m^2)	1,915.78	2,030.73	6%
1 Bedroom Flat (32.1m^2)	1,799.39	1,907.35	6%
1 Bedroom Flat (38m-46m^2)	2,795.70	2,963.44	6%
2 Bedroom Flat (35.2m^2)	2,364.57	2,506.44	6%
2 Bedroom Flat (37.2m^2)	2,623.44	2,780.85	6%
2 Bedroom Flat (37.3m^2)	2,744.47	2,909.14	6%
2 Bedroom Flat (37m^2)	2,164.84	2,294.73	6%
2 Bedroom Flat (41-42m^2)	2,576.88	2,731.49	6%
2 Bedroom Flat (45-46m^2)	2,795.70	2,963.44	6%
2 Bedroom Flat (48m^2)	2,935.33	3,111.45	6%
2 Bedroom Flat (50m^2)	3,184.43	3,375.50	6%
3 bedroom Flat (46.8m^2)	3,128.56	3,316.27	6%
3 Bedroom Flat (41.8m^2)	2,928.38	3,104.08	6%
3 Bedroom Flat (52.7m^2)	3,395.70	3,599.44	6%
3 Bedroom Flat (48m^2)	2,935.33	3,111.45	6%
3 Bedroom Flat (52m^2)	3,184.43	3,375.50	6%
3 Bedroom Flat block E (77m^2)	4,590.65	4,866.09	6%
Bachelors Flat (22m^2)	1,396.59	1,480.39	6%
Bachelors Flat (23m-35m2)	1,915.78	2,030.73	6%
Bachelors Flat (28m^2)	2,003.88	2,124.11	6%
Shop no 1(33m^2)	2,295.19	2,432.90	6%
Shop no 2(34m^2)	2,365.02	2,506.92	6%
Shop no 3(97m^2)	6,767.89	7,173.96	6%
Shop no 4(52m^2)	3,620.32	3,837.54	6%
Shop no 5(57m^2)	2,078.71	2,203.43	6%
Shop no 6(83m^2)	5,775.26	6,121.78	6%

	Tariff 2015/2016	Tariff 2016/2017	% Increase
Water			
Water supply	189.29	200.64	6%
Refuse			
Refuse collection costs	113.57	120.38	6%
Sewer and administration costs			
Sewer recovery charges	80.14	84.95	6%
Final letter of demand	22	22	

ORGANISATIONAL AND HUMAN RESOURCE IMPLICATIONS

None

FINANCIAL IMPLICATIONS

None

LEGAL IMPLICATIONS

The tabling of the IDP and Budget in April 2016 will ensure compliance with Section 24 of the MFMA.

COMMUNICATION IMPLICATION

The delivery and approval of the budget to the community is widely communicated by Marketing and Brand Management Department. The approved document will also be distributed as per the required legislation, which inter alia includes EMM's website.

RECOMMENDATION

That the report regarding the planning proposals for the Reviewed Integrated Development Plan and the Medium-term Revenue and Expenditure Framework of Ekurhuleni Development Company (EDC) ET AL for the 2016/2017 to 2018/2019 financial period **BE APPROVED**.